MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BFN3034 – BEHAVIOURAL FINANCE

(SECTION B01)

4 MARCH 2016
3.00 P.M. – 5.00 P.M.
(2 HOURS)

INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 2 pages with **ONE** section.
2. Answer **ALL** questions. The marks for each section are given in the question paper.
3. Please write your answers for all the questions in the answer booklet.

Answer ALL questions. All questions carry equal marks.

Question 1

Identify one behavioural characteristic from statement (a) to (e) below.

(a) Investors are slow to update their beliefs when given new evidence. **(5 marks)**

(b) Investors are reluctant to bear losses caused by their unconventional decisions. **(5 marks)**

(c) Investors exhibit less risk tolerance in their retirement accounts versus their other stock accounts. **5 marks)**

(d) Investors are reluctant to sell stocks with "paper" losses. **(5 marks)**

(e) Investors disregard sample size when forming views about the future from the past. **(5 marks)**

(Total: 25 marks)

Question 2

(a) Shleifer defines two kinds of people in his model: noise traders and arbitrage traders. How are these two types of people defined? How many participants are in Shleifer's model? **(15 marks)**

(b) What is prospect theory? How is it different from expected utility theory? **(10 marks)**

(Total: 25 marks)

Question 3

(a) Explain the overconfidence of investors. How does it affect investment decisions? **(10 marks)**

(b) Explain how cognitive illusions have an acute impact on financial markets. **(15 marks)**

(Total: 25 marks)

Continued...

Question 4

(a) Explain why it is possible for noise trader to be more profitable than arbitrageurs. **(10 marks)**

(b) Explain sunk cost bias with an example. **(10 marks)**

(c) Explain the term of framing. **(5 marks)**

(Total: 25 marks)

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